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SIPDIS

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SUBJECT: U.S.-TURKEY TRADE: NEED FOR HIGHER-LEVEL DIALOGUE

Classified By: Ambassador James Jeffrey for reasons 1.4 (b,d).

¶1. (C) During President Obama's meeting with Turkish President Gul in April, the two leaders agreed that we need to do more to encourage the two-way flow of bilateral trade and investment and President Obama tasked me to make that happen (a message that was reinforced during the later meetings between Secretary Clinton and Foreign Minister Davutoglu in Washington). Following up on the President's directive, we have held a number of meetings with the Turkish government and both the U.S. and Turkish private sectors to develop ideas that will strengthen the economic leg of our Turkish alliance - a summary of those ideas will follow septel. What has become clear in the course of these discussions, however, is the need for us to bring our various government-to-government mechanisms together under one high-level umbrella that can achieve real progress.

¶2. (C) We currently have three main mechanisms for bilateral economic talks:

-- The Economic Partnership Commission (EPC), chaired by the Assistant Secretary of State for Economic and Energy Affairs and the MFA Undersecretary, which looks at the entirety of our economic relationship;

-- The Trade and Investment Framework Agreement (TIFA) Council, chaired by the Assistant USTR and the Deputy Undersecretary for Foreign Trade, which deals with barriers to trade and investment; and,

-- The Energy Working Group, chaired by Special Envoy for Eurasian Energy Morningstar and MFA Deputy Undersecretary Kuneralp, which focuses exclusively on energy issues.

Each of these serves an important purpose in defining the list of issues that prevent the economic relationship from growing or in identifying areas for cooperation. The problem that all of these groups encounter, however, is that the Turkish counterparts are hesitant to commit to fixing issues or taking real action because they are mainly working at the bureaucratic level, a problem to some extent mirrored on our own side. As a result, we end up with months of negotiation to agree upon action plans that are never or only partially implemented, or that contain nebulous phrasing on future cooperation -- not a productive use of our time.

¶3. (C) During a recent meeting with MFA Undersecretary Apakan, he made it clear that the Turks expect the commitments made by President Obama and Secretary Clinton to result in real, tangible action to increase trade, specifically saying that "we need to do something big to

revitalize U.S.-Turkish economic relations." He recognized that this would probably require us to raise the level of discussion to include those with the power to effect change (i.e. the ministerial or undersecretarial level). He suggested the creation of a task force to set the direction of the economic relationship, designing a program of work and a political commitment to implement it that could then be carried out through the existing bilateral mechanisms.

¶4. (C) For the Turkish side, Apakan suggested that the appropriate interlocutor for this high-level group would be either Deputy Prime Minister for the Economy Babacan, Foreign Minister Davutoglu, or possibly State Minister for Foreign Trade Caglayan. Their side would also include participation from, at a minimum, the Undersecretaries and/or Deputy Undersecretaries at Foreign Trade, Treasury, and MFA.

¶5. (C) If we can get this sort of high-level Turkish attention, we will have a real opportunity to actually solve many of the nagging impediments to trade and investment with Turkey (it will also provide the Turks with the sort of high-level spectacle that they often accept as a surrogate for real action, a la Putin's recent visit to Ankara). Seizing this opportunity will require us to pony up with an equally strong commitment to bring high-level U.S. officials to the table. The logical person to coordinate our side of this task force would be the Undersecretary of State for Economic, Energy and Agricultural Affairs, with active participation at least at the Assistant Secretary level from USTR and the Departments of Agriculture, Commerce, Homeland Security (Customs and Border Protection), and possibly Treasury.

¶6. (C) The main problem we face is one of timing. Undersecretary-Designate Hormats is not likely to be confirmed until September at the earliest and by the time he is on board, up to speed, and available to meet we will have lost several valuable months (and possibly Turkish attention). To remedy this, I am willing to take on the task of chairing this task force in the short term and get the ball rolling, with the concurrence of the Department and NSC.

¶7. (C) The other problem we will encounter is that the Turks still view economics in mercantilistic terms, and they neither understand that we cannot simply order our companies to do business with Turkey nor truly grasp that preferential trade packages require legislative action. While this limits our range of possibilities, we can show the GOT that the executive branch is putting a priority on improving trade with Turkey and that we will do what we can to facilitate it, assuming an equal commitment on their side. Apakan pointedly remarked that the Congress has been willing to pass laws for other countries (South Korea, Colombia) and that he did not understand why they could not do the same for Turkey. While this is a form of the typical "If you really loved us you would do this" argument that frequently comes up in Turkey, it is also a valid point. Turkey is a critical ally of the United States in a very troubled region, as well as a major emerging market, and there is no reason why we cannot use an enhanced trade relationship to complement our already strong political one. To do so, we should act sooner rather than later to set up this task force and develop an action plan that will provide real results.

¶8. (C) In terms of ideas for the "something big" that we could offer to Turkey, I have listed some possibilities below. Some of these have been considered previously and rejected, but now may be an opportune time to reconsider them.

-- Tweak the Generalized System of Preferences to help Turkey, and where possible ensure that Competitive Needs Limitation waivers are granted for Turkish goods to remain in the program.

-- Consider Turkey as a privileged partner in the Reconstruction Opportunity Zone that we are planning to establish in Afghanistan and Pakistan. Given Turkey's huge (proportionally speaking) aid program of over USD 300 million for the two countries, the history of Turkish companies

operating in the region, and their other support for our efforts to improve the situation in that area, Turkey is a natural candidate to play such a role.

-- Design a CEO/business leader "road show" both in Turkey and in the United States as a means to stimulate increased two-way trade and investment.

-- Consider some sort of "lite" free trade agreement (necessarily restricted in view of Turkey's membership in the EU Customs Union) that could be deployed when and if we see major political breakthroughs here.

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Silliman